

STATE OF NEW JERSEY  
CASINO CONTROL COMMISSION

IN RE: CONTINUATION OF THE  
FINANCIAL STABILITY HEARING OF TRUMP'S:  
CASTLE ASSOCIATES LIMITED PARTNERSHIP

Wednesday, August 14, 1991  
Atlantic City Commission Office  
Tennessee & Boardwalk  
Atlantic City, NJ 08401  
1:30 p.m.

VOLUME VIII

B E F O R E:

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JAMES R. HURLEY, COMMISSIONER

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ON BEHALF OF THE DIVISION STAFF:

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1 A P P E A R A N C E S :

2 ON BEHALF OF THE TRUMP ORGANIZATION

3 RIBIS, GRAHAM & CURTIN, ESQS.,  
4 BY: JOSEPH A. FUSCO, ESQ.

5 ROBERT M. PICKUS, ESQ.,  
6 INHOUSE COUNSEL FOR TRUMP'S CASTLE

7 ON BEHALF OF THE TRUMP CASTLE BONDHOLDERS STEERING  
8 COMMITTEE

9 LOWENSTEIN, SANDLER, KOHL, FISHER & BOYLAN, ESQS.,  
10 BY: JOHN D. SCHUPPER, ESQ.

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1 CHAIRMAN PERSKIE: All right, we will  
2 reconvene the session this afternoon. Again, the  
3 record will reflect that the entire Commission is  
4 present save for Commissioner Dodd.

5 I don't know that we anticipate  
6 having any special specific votes this afternoon, but  
7 I will make the usual disclaimer that in the event  
8 that there is a vote, the outcome of which would  
9 possibly be affected by the absence of the  
10 Commissioner, that we will hold any determination on  
11 that issue until the full Commission is present.

12 The item on the agenda this afternoon  
13 is the continuation in the hearings regarding the  
14 financial stability in this instance of Trump's Castle  
15 Associates Limited Partnership.

16 Why don't we have all of the  
17 participants--oh, sorry.

18 MR. RIBIS: I went to get my lawyer.

19 CHAIRMAN PERSKIE: You won't tell him  
20 this, I hope, but I didn't even know--there he is.

21 MR. RIBIS: He is on Fusco time.

22 CHAIRMAN PERSKIE: I understand.

23 MR. FUSCO: Sorry.

24 CHAIRMAN PERSKIE: No problem.

25 We were just getting ready to enter

1 appearances when we noticed that we couldn't do that.

2 So now arguably we can do that.

3 MR. FUSCO: Joseph Fusco for Ribis,  
4 Graham & Curtin for the licensee, Trump's Castle  
5 Associates, and Mr. Pickus, senior vice president  
6 general counsel for Castle as well.

7 MR. SCHUPPER: John Schupper from  
8 Lowenstein, Sandler, Kohl, Fisher & Boylan for the  
9 Steering Committee.

10 CHAIRMAN PERSKIE: Sorry, your last  
11 name?

12 MR. SCHUPPER: Schupper,  
13 S-C-H-U-P-P-E-R.

14 CHAIRMAN PERSKIE: For the Division?

15 MS. FLAHERTY: Mary Jo Flaherty for  
16 the Division of Gaming Enforcement.

17 CHAIRMAN PERSKIE: There were no  
18 interventions. That covers the ground then.

19 Let's talk about documents first.  
20 When last we formally met, I believe it was July 31,  
21 we received a good number of documents which have been  
22 received and marked into evidence. At that time there  
23 was a discussion on the record with respect to a  
24 concern that the Commission had with respect to the  
25 document A-68D and the applicant was directed to

1 submit additional documentation not later than noon on  
2 August 2 with respect to those matters.

3           The record will reflect that on  
4 August 2 before noon the Commission received two  
5 documents which have been premarked as A-68E and  
6 A-68F. A-68E is a revised version of A-68D and was  
7 submitted in supersession of 68D. A-68F is an  
8 executed memorandum agreement among Midlantic National  
9 Bank, Trump's Castle Associates, Donald J. Trump and  
10 the Steering Committee representatives. Those  
11 documents again have been received. I understand that  
12 they are contemplated now to be offered in evidence?

13           MR. FUSCO: That is correct.

14           MS. FLAHERTY: No objection from the  
15 Division.

16           CHAIRMAN PERSKIE: And from the  
17 Steering Committee I assume no objection.

18           MR. SCHUPPER: No objection.

19           CHAIRMAN PERSKIE: A-68E and F will  
20 be received and marked into evidence in this  
21 proceeding

22                   (A-68E and A-68F were marked into  
23 evidence)

24           CHAIRMAN PERSKIE: In addition, since  
25 the 31st we have received a number of additional

1 documents. A-76 is a 20 page compilation of  
2 statistics as well as other data captioned Operational  
3 Statistics 1991-1993. I will leave out the story  
4 about the Hudson County election results. These are  
5 projections of what's coming and this document  
6 likewise, Mr. Fusco, is offered by the applicant?

7 MR. FUSCO: That is correct, Mr.  
8 Chairman.

9 MS. FLAHERTY: No objection from the  
10 Division.

11 CHAIRMAN PERSKIE: A-76 likewise will  
12 be received and marked into evidence.

13 (A-76 was marked into evidence)

14 CHAIRMAN PERSKIE: Now, today the  
15 record should reflect that the Commission staff has  
16 engaged over the last few days in dialogue with the  
17 Division representatives and with representatives of  
18 the licensee and the Steering Committee. As a result  
19 of that dialogue two additional documents have been  
20 received this afternoon and have been premarked as  
21 A-68G and A-68H.

22 A-68G is a two page letter addressed  
23 to me from Mr. Fusco under today's date and which in  
24 substance is a notice of and amendment to the S-4  
25 registration statement filed previously with the



1 Securities and Exchange Commission. As we all  
2 contemplate, there will be at least one required  
3 amendment to the registration statement prior to its  
4 effective date in the ordinary course of the review by  
5 the SEC which is not--which amendments will not--which  
6 amendments are contemplated not to affect any  
7 significant or material change in the business terms  
8 of the transaction that is therein described.

9           The document A-68G, however, proposes  
10 a change which the Commission considers to be of  
11 substantial substance and significance in the deletion  
12 of language at page 31 which is described in the  
13 letter and which is included as a part of the plan.

14           A-68H is a letter addressed to me  
15 from a Mr. Nutt on behalf of the Steering Committee,  
16 counsel to the Steering Committee for the first  
17 mortgage bondholders which letter, again, with respect  
18 to this letter on which letter the Commission places  
19 substantial significance and reliance. The letter  
20 constitutes an acknowledgment by the Steering  
21 Committee of the proposed modification to the plan as  
22 reflected in the letter of August 14 from Mr. Fusco  
23 and reaffirms in A-68H that with that modification the  
24 Steering Committee reaffirms or ratifies the language  
25 of its August 2 letter at A-68E by which letter the

1 Steering Committee undertakes to report to the  
2 Commission its approval of and agreement to accept and  
3 recommend to other bondholders the terms of the plan  
4 as contained in the registration statement all as  
5 modified by Mr. Fusco's letter of today's date.

6 A-68G and H are offered, Mr. Fusco?

7 MR. FUSCO: Correct. That is  
8 correct, Mr. Chairman.

9 CHAIRMAN PERSKIE: And Mr. Schupper?

10 MR. SCHUPPER: No objection.

11 MS. FLAHERTY: No objection.

12 CHAIRMAN PERSKIE: Those documents  
13 will be received and marked into evidence as A-68G and  
14 H respectively.

15 (A-68G and A-68H were marked into  
16 evidence)

17 CHAIRMAN PERSKIE: The Division of  
18 Gaming Enforcement has?

19 MS. FLAHERTY: Mr. Chairman, we have  
20 a report dated August 9 which we would like to move  
21 into evidence.

22 CHAIRMAN PERSKIE: 8 or 9?

23 MS. FLAHERTY: I believe it's dated  
24 August 9.

25 CHAIRMAN PERSKIE: Yes, but I

1 have--there is a reference here on my list of D-11  
2 which is a supplemental report dated August 8 and I  
3 have a copy of the report dated August 9. I just want  
4 to make sure that there is only one report.

5 MS. FLAHERTY: There is only one  
6 report. It's dated August 9.

7 CHAIRMAN PERSKIE: That will be  
8 marked as D-11. The Commission's exhibit list will be  
9 modified to reflect the correct date is August 9.

10 Mr. Fusco, you had an opportunity to  
11 review D-11?

12 MR. FUSCO: Yes, Mr. Chairman. We do  
13 not object to it being admitted into evidence.

14 CHAIRMAN PERSKIE: Mr. Schupper?

15 MR. SCHUPPER: No objection.

16 CHAIRMAN PERSKIE: The receipt of  
17 exhibit D-11 is received and marked into evidence at  
18 this proceeding.

19 (D-11 was marked into evidence)

20 CHAIRMAN PERSKIE: The Commission's  
21 Division of Financial Evaluation has prepared a report  
22 under date of August 12, 1991 evaluating the  
23 Securities and Exchange Commission form S-4, the  
24 registration statement submitted under date of July  
25 31.

1 Mr. Fusco, you have had the  
2 opportunity to receive and review that report as  
3 well?

4 MR. FUSCO: Yes, Mr. Chairman.

5 CHAIRMAN PERSKIE: Any objection to  
6 its receipt?

7 MR. FUSCO: No, we have no objection.

8 MS. FLAHERTY: Yes, we reviewed the  
9 report, Mr. Chairman.

10 CHAIRMAN PERSKIE: Any objection?

11 MS. FLAHERTY: No objection.

12 CHAIRMAN PERSKIE: Mr. Schupper?

13 MR. SCHUPPER: No objection.

14 CHAIRMAN PERSKIE: C-16 will be the  
15 number assigned to the Commission's staff report and  
16 that report will be received and marked into evidence  
17 as C-16.

18 (C-16 was marked into evidence)

19 CHAIRMAN PERSKIE: Counsel, are there  
20 any other documents that you know of that we have  
21 received and that to which reference should be made on  
22 the record?

23 MS. FLAHERTY: No, Mr. Chairman.

24 MR. FUSCO: No, I have nothing  
25 further, Mr. Chairman.

1                   CHAIRMAN PERSKIE: The record should  
2 reflect that all of those documents that are now  
3 received have been submitted to the Commission at the  
4 times indicated and the Commission has had the  
5 opportunity to review all of them so that they are  
6 not--the record should reflect that we are not  
7 receiving them for the first time right now.

8                   Okay, with that documentary base, Mr.  
9 Fusco, it's my understanding that the licensee has  
10 certain testimony to present in support of its  
11 application. I should indicate so that the record is  
12 clear, and as the parties have already been apprised,  
13 it is the Commission's intention to receive evidence  
14 this afternoon in support of the application and any  
15 other evidence that the Division may wish to adduce or  
16 that--well, that the Division may wish to adduce. We  
17 will then recess today to evaluate the testimony that  
18 we have heard against the analysis that we already  
19 have with regard to the documents that have been  
20 submitted and we will prepare what hopefully will be  
21 the final opinion with respect to the present state of  
22 the financial stability of the applicant, and it is my  
23 expectation that that opinion and decision should be  
24 prepared and ready by our next meeting which will be  
25 next Wednesday, one week from today.

Wagner - Direct by Fusco

1 Mr. Fusco, you may proceed.

2 MR. FUSCO: The licensee calls Roger  
3 Wagner. Mr. Chairman, we will make reference to  
4 exhibit A-67 and A-76 in his testimony.

5 CHAIRMAN PERSKIE: Hold up a second  
6 while he is getting sworn in for which purpose, Mr.  
7 Wagner, I would ask that you stand. Which are they?

8 MR. FUSCO: 76, which are the  
9 forecasts.

10 R O G E R P. W A G N E R, having been first duly  
11 sworn, testified as follows:

12 DIRECT EXAMINATION

13 BY MR. FUSCO:

14 CHAIRMAN PERSKIE: Imagine that, the  
15 document was where it belonged. We are off to a  
16 rolling start.

17 MR. FUSCO: At the Commission's  
18 pleasure, Mr. Chairman.

19 BY MR. FUSCO:

20 Q Mr. Wagner, you previously testified on  
21 April 29 in these proceedings; is that not correct?

22 A Yes, sir.

23 Q And you are the president and chief  
24 operating officer of Trump's Castle?

25 A That's correct.

Wagner - Direct by Fusco

1 Q And have been in that position since the  
2 early part of this year, January, correct?

3 A Yes.

4 Q You earlier testified during April as to  
5 certain management and marketing policies. Could you  
6 give the Commission a status report on your management  
7 group and your marketing plan as it now stands?

8 A We gave the Commission and the Division  
9 our business plan with narrative on strategies and  
10 tactics. I am happy to report that with some timing  
11 issues that plan is still in place, all the strategies  
12 and tactics are being followed and we are working  
13 towards completion of all of them to a successful  
14 conclusion.

15 With respect to management, I  
16 reported on our senior management group back in  
17 April. All of those folks are in place, duly licensed  
18 and just three weeks ago we hired on Bucky Howard who  
19 previously opened Trump's Castle. He has come on as  
20 executive vice president of casino operations and  
21 player development. He fills that final piece of the  
22 puzzle for the operating market segment which we are  
23 looking forward to being able to bring into Trump's  
24 Castle.

25 Other than the senior management

Wagner - Direct by Fusco

1 group there has been no significant change other than  
2 a new hotel manager which we brought over from  
3 Harrah's and a new food and beverage director which we  
4 brought in from the Hershey in Philadelphia who was  
5 previously with the New York Hilton. Everybody else  
6 is basically in place as was on April 29.

7 Q In addition to your now stabilized  
8 management group, your marketing plan, Mr. Wagner, you  
9 described it in earlier testimony. Could you give the  
10 Commission a comment on what the status is there?

11 A We have deemphasized Mr. Trump's name as  
12 we said we were going to do and have really--we are  
13 going back to the future, if you will, and returning  
14 to the Castle imagery and theme. Trump's Castle, the  
15 Castle will have banners hung it in. Different Castle  
16 type imagery has been ordered and have been placed in  
17 the lobby in a very classy, almost museum type  
18 fashion. We are developing slot theming around Castle  
19 type imagery and moving toward setting ourself apart  
20 from the boardwalk as a distinct resort kind of  
21 facility. Through recent focus groups we have  
22 conducted with customers we have made significant  
23 gains since the previous focus groups that were  
24 conducted by past management by the same focus group  
25 company. The perception of Trump's Castle is a warm,



Wagner - Direct by Fusco

1 friendly kind of a place that you can now win money  
2 in, slots are looser, table odds are better, we have  
3 wider aisles, more seats, the kind of things customers  
4 have been asking Trump's Castle to do. We have  
5 fulfilled those requests and that part of the plan is  
6 working very well and I think our numbers from June on  
7 have supported that we went in the right direction.

8 We have made very capital  
9 improvements that we discussed earlier this year,  
10 finishing the casino pub, improving the buffet and  
11 doing all the reconfiguration in the casino to the  
12 extent that we could by May 31 or Memorial Day. We  
13 did not quite finish the casino reconfiguration. We  
14 terminated any activities past that date for the  
15 summer so as not to experience disruption. Quite  
16 frankly, the disruption that we experienced in late  
17 April and all of May was far greater than I thought we  
18 would have and we don't want to go through that,  
19 especially in the summer. The remaining tweaking that  
20 we have to do in reconfiguration we will do in smaller  
21 steps from Labor Day through Christmas.

22 Q You have a more timely and player specific  
23 coin incentive program for your slot players. Did  
24 your focus group focus on the reaction of players to  
25 that program?

Wagner - Direct by Fusco

1           A       Yes. One of the things that I encountered  
2 when I came to Trump's Castle that slowed me down more  
3 than I anticipated was the backlog in technology.  
4 While Trump's Castle has state of the art computer  
5 equipment, it actually had stoneages kind of  
6 software. So it's taken me approximately four months  
7 longer to get the software in place to drive a  
8 customer specific player rating system.

9                       On July 1 we kicked off what we call  
10 the Castle Gold card to replace the Trump Card and it  
11 is a specific database driven cash back program and  
12 the effects of that have been phenomenal. Not only  
13 customer acceptance to it has been great, has proven  
14 the focus group, but consistency, we are now driving  
15 in the slot revenue. The day-in and day-out base of  
16 loyal customers gives me a great feeling of comfort,  
17 especially after such a short period of time.

18           Q       Have you focused on service levels to the  
19 patrons?

20           A       Service levels are the hardest thing to  
21 change. That is really a 36 month project that we  
22 have in place. Actually the hardest part of service  
23 enhancement I intended to kick off after September 15  
24 when we took the temporary employees out of the  
25 picture, we will concentrate on putting resources

Wagner - Direct by Fusco

1 towards human resource development in the fall and  
2 that's ongoing. With the turnover in this industry  
3 you just keep doing that like doing the dishes  
4 everyday.

5 Q You made reference to the word  
6 consistency. Is consistency important to the program  
7 that you have as a manager at the Castle?

8 A That's the most important thing we can put  
9 into place. Trump's Castle has gone through a number  
10 of management changes over the past few years and  
11 every manager has a different idea unfortunately and  
12 consistency was not there. It's our desire to have  
13 something go. Whether it doesn't work today or not is  
14 not my goal. It's going to be long range driven.

15 Q The current forecasts that are contained  
16 in exhibit A-67, those forecasts, Mr. Wagner, are  
17 dated July 30, 1991 and they contemplate the  
18 implementation of the reorganization plan set forth in  
19 the registration statement; is that not so?

20 A That's correct.

21 Q And you've had an opportunity to  
22 participate in their preparation, correct?

23 A Yes.

24 Q The forecasts discuss, among other things,  
25 total cash and accounts payable during the license

Wagner - Direct by Fusco

1 period between now and May of 1993. Could you  
2 indicate to the Commission what is the current cash  
3 position today at the Castle?

4 A Okay, as of 10:00 this morning it was  
5 \$10,648,000.

6 Q Now, do you have a graph or a chart that  
7 talks about cash position?

8 CHAIRMAN PERSKIE: That includes  
9 house cash?

10 THE WITNESS: That includes house  
11 cash.

12 A I have provided a couple of graphs on  
13 cash. On page three of Exhibit 76 is a projection  
14 based on the forecast on July 31 where we will be  
15 weekly if we meet our projections. The red line is  
16 the actual, having only several weeks since that  
17 projection was put in. We are tracking slightly ahead  
18 of the plan for the first two weeks and the books on  
19 the business given the fact we are subject to a hold  
20 percentage, of course, will indicate that we will  
21 overachieve that cash.

22 CHAIRMAN PERSKIE: Excuse me just one  
23 second, let me so that we are clear, there are a  
24 number of references in A-76 which are the operational  
25 statistics to what is called 1991 projection. There

Wagner - Direct by Fusco

1 are a number of different projections. There is the  
2 '91 projection and then there are certain projections  
3 that are identified by numbers 44K, 30K, 26K, et  
4 cetera. The reference to 1991 projection is that--

5 THE WITNESS: On a cash balance is  
6 based on the latest July 31 26.3 million dollars GOP  
7 for this year.

8 CHAIRMAN PERSKIE: So that--and that  
9 is essentially what is in A-67?

10 THE WITNESS: That's correct.

11 CHAIRMAN PERSKIE: The same  
12 projection.

13 THE WITNESS: Right.

14 CHAIRMAN PERSKIE: That's the 26,  
15 that's the one that is designed to bring it out to  
16 26?

17 THE WITNESS: That's right, and if  
18 that projection comes true on 12/31 of this weekly  
19 chart it shows us about 14.7 million dollars in cash.  
20 Obviously the cash dips there right after 10/31 when  
21 we make the 2.2 million dollar property tax payment  
22 November 1 and you can see the dip for that week.  
23 December is projected to lose approximately \$400,000  
24 on the gross operating line and, therefore, a slight  
25 decline in cash to finance that loss.

Wagner - Direct by Fusco

1 BY MR. FUSCO:

2 Q So page three is a week-by-week graph of  
3 the cash balances through the end of this year, is  
4 that correct, Mr. Wagner?

5 A Yes.

6 Q Page one, the chart, two pages ahead of  
7 that, that's cash and projects through the end of June  
8 1993, essentially the license period; is that not so?

9 A That's right.

10 Q What balance will the Castle experience on  
11 December 31, 1992? What will be the cash balance  
12 then?

13 A That will be at 14.7 million.

14 Q I'm sorry, '92?

15 A Oh, '92, at the end?

16 Q Yes.

17 A Of the second quarter--one year later,  
18 December 31, 1992, a year after--we will have 27.9  
19 million at the end of the second year, December 31.

20 Q And six months later, June 30, 1993,  
21 what's the projected cash position?

22 A At the end of the licensing period  
23 assuming we meet our projections and make all the  
24 payments under the restructuring we will have 34.2  
25 million dollars in cash.

Wagner - Direct by Fusco

1 Q Now, this chart also talks in terms of  
2 accounts payable. At the same time that the cash is  
3 accumulating as you have described, what will the  
4 Castle be doing with its accounts payable?

5 A Well, as I testified in April, we brought  
6 accounts payable down from 11 million dollars down to  
7 approximately 5.2 which is about the city wide average  
8 in the casinos of 60,000 square feet. Since that time  
9 we have paid payables down to 4.6 million and our  
10 projections are to have them level out at  
11 approximately 4.2. We have been juggling the  
12 inventories. I moved the warehouse facility on site  
13 off of Delilah Road where we have better control of  
14 inventories and we are able to flatten out the spikes  
15 in inventories and accounts payable.

16 We don't see any construction during  
17 the next three or four years so that should not change  
18 on the flattened out basis by quarter. Obviously  
19 depending on month end dates, weekends or mid week  
20 periods, that balance could bounce up or down a few  
21 hundred thousand dollars.

22 Q So your forecast of this accumulation of  
23 cash is not at the expense of paying your vendors on a  
24 timely basis?

25 A I can tell you the vendors wouldn't let us

Wagner - Direct by Fusco

1 bump them up anyway.

2 Q Based on the most recent cash balances for  
3 the casino industry in Atlantic City, what is the  
4 Castle's cash position as contrasted with the industry  
5 average?

6 A On page two I provided a graph which shows  
7 the industry current cash position and we have taken  
8 the average, taken the Taj and the Showboat out of the  
9 picture because they have extremely high cash balances  
10 and we have removed the TropWorld and the Claridge  
11 from the picture because they have extremely low  
12 balances but credit lines to draw upon for their  
13 working capital needs, and as you can see with our  
14 current position the Castle is right on industry  
15 average. Basically our facility can operate with  
16 about five million in internal funds and five million  
17 dollars is certainly adequate for working capital  
18 fluctuations.

19 Q You have been a casino executive for 20  
20 years, is that correct, Mr. Wagner?

21 A Yes.

22 Q Are you comfortable as a casino operator  
23 with the cash balances that are forecast for the end  
24 of the year and for the balance of the license period?

25 A Yes, I am.



Wagner - Direct by Fusco

1 Q These forecasts, A-67 updated July 30,  
2 January to June is already an established fact. So  
3 these forecasts actually are a projection of the last  
4 six months. The first six months in the forecast of  
5 the actual performance are the numbers used, correct?

6 A That's correct.

7 Q What is the EBITDA, earnings before  
8 interest, taxes, depreciation and amortization  
9 forecast in A-67 for 1991?

10 A The revised projections now that we use  
11 for the restructuring will bring us in at 26.3 million  
12 in gross operating profits, EBITDA as the accountants  
13 call it, as of December 31.

14 CHAIRMAN PERSKIE: Just before you  
15 leave that thought, do I understand, I am on that  
16 page, page three of A-67, do I understand that the  
17 figures January through June are actual?

18 THE WITNESS: Yes, sir.

19 CHAIRMAN PERSKIE: And what about  
20 July? July is 463--\$4,634,000. Obviously this was  
21 prepared and submitted before the end of July. That  
22 would be a projection?

23 THE WITNESS: July turns out to have  
24 improved over that forecast.

25 CHAIRMAN PERSKIE: That was my next

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1 question. This was a forecast number 4,634,000?

2 MR. WAGNER: Yes.

3 CHAIRMAN PERSKIE: What was the  
4 actual?

5 THE WITNESS: 5.186.

6 CHAIRMAN PERSKIE: Essentially half a  
7 million dollars better?

8 THE WITNESS: Yes, sir.

9 CHAIRMAN PERSKIE: Some 10 percent  
10 better than the projection?

11 THE WITNESS: Right.

12 MR. FUSCO:

13 Q And since the Chairman raised it, we are  
14 now on the 14th of August. What's been the  
15 performance toward EBITDA so far for the month of  
16 August during the first 14 days?

17 A We projected 4.8 million dollars for  
18 August. Current--currently we have three and-a-half  
19 million dollars already in the can for August with  
20 three weekends of the five to go. We are really  
21 optimistic we will beat August by perhaps a million or  
22 a million and-a-half dollars.

23 Q So that the forecast part of A-67 albeit  
24 only the first two months that we are in the period,  
25 you have overachieved the forecast thus far?

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1           A     Conservatively we will have 19 million of  
2 our 26.3. At the end of this month hopefully we will  
3 have 20 million.

4           Q     A-44 is an exhibit in these proceedings  
5 and they are forecasts as well?

6                     CHAIRMAN PERSKIE: Wait a moment,  
7 wait a moment.

8                     MR. FUSCO: Well, I don't think you  
9 need to refer to them, Mr. Chairman, because we are  
10 going to be talking about the concept.

11                    CHAIRMAN PERSKIE: If it's 44 it's  
12 under about four boxes worth of stuff.

13                    MR. FUSCO: Believe me, I am aware of  
14 that.

15 BY MR. FUSCO:

16           Q     Mr. Wagner, the exhibits speak for  
17 themselves, but A-44 is A, B and C. A-44A is an  
18 exhibit that was--is a forecast dated February 25,  
19 1991. A-44C is a revision to that dated April 22,  
20 1991. You testified on April 29, 1991 and you  
21 testified from those forecasts, that is correct,  
22 correct?

23           A     Yes, sir.

24           Q     Those forecasts, specifically A-44C,  
25 projected a 44 million dollar EBITDA for 1991; do you

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1 recall that?

2 A Yes, sir.

3 Q At the time that you testified, did you  
4 believe those forecasts to be reasonable and  
5 attainable?

6 A At that time I did.

7 Q The new forecast which is dated July which  
8 we just talked about forecasts and EBITDA for 1991  
9 which is appreciably lower than that, that is correct,  
10 correct?

11 A Yes, sir.

12 Q Considering the difference between A-44  
13 and A-67, could you explain what caused the shortfall  
14 and could you explain to the Commissioners how that  
15 forecast ended up not being achieved?

16 A Yes. Well, I think there were several  
17 errors in assumptions on my part partially driven by  
18 the fact that we had great success in the first 90  
19 days with cost cuts and there was a lot of revenue in  
20 the marketing pipe that still came out even though we  
21 were able to put the brakes on the costs. With the  
22 success in the first 90 days we were real happy about  
23 the projections. I only had 18 days to work with the  
24 projections when I first got to the Castle. The  
25 facility after being at the Claridge excited me to no

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1 end and I really thought that we would be able to  
2 bring table games revenue around much more quickly.  
3 The strategies and the tactics that we put in place  
4 are valid and as I testified earlier will continue to  
5 drive our company over I believe the next two to three  
6 years with little tweaking, obviously tactics change  
7 from time to time.

8 I underestimated the technology in  
9 the place. What I hoped to have on line by April 1 is  
10 just now on line and being still refined.

11 I also underestimated the time that  
12 it would take to finance slot equipment that we  
13 purchased. Given our financial situation nobody  
14 really wanted to do business with us. To some extent  
15 I was financing slot equipment off the Claridge and my  
16 relationship with the slot vendors.

17 I also greatly underbudgeted the  
18 disruption on the floor when we took the two hundred  
19 some slot machines off the floor. We would have  
20 thought that we would have seen an incline in win per  
21 unit with the units off the floor. Instead not only  
22 did we have a decline in gross but a decline in win  
23 per unit because of the horrible disruption, probably  
24 about four or five million dollars when it got  
25 through. On the other hand, if I had to do it all

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1 over again that way, because while we were improving  
2 the organizational structure from a human resources  
3 standpoint and improving the technology, we made the  
4 product changes that we had to make which were overdue  
5 and we are glad we did now.

6 CHAIRMAN PERSKIE: Excuse me, before  
7 you proceed with your next question, do you have 44  
8 there?

9 MR. FUSCO: Yes.

10 CHAIRMAN PERSKIE: Can you give the  
11 staff a copy of that? I'm not going to be able to  
12 find it easily and there will be a couple of questions  
13 in a few minutes that I would like to ask. If we have  
14 a copy of the--all I'm interested in for this purpose  
15 is the sheets from the last projection, the April 22  
16 projection for 1991. Ask somebody to find it. Thank  
17 you.

18 BY MR. FUSCO:

19 Q Did you mention, Mr. Wagner, that the fact  
20 that among the many decisions that were made in  
21 January, February, March, you would have reduced your  
22 available complimentaries significantly, did that  
23 impact on the accuracy of the way these forecasts  
24 turned out?

25 A Well, we chased off a lot of customers

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1 that were unprofitable under the old complimentary  
2 system that we thought would come back more quickly.  
3 They are now starting to return but less quickly than  
4 we thought. We also had problems attracting qualified  
5 player development executives. We were looking at  
6 people working in other casinos, but they didn't want  
7 to leave given the financial problems, the license  
8 application in front of the Commission, the Hilton  
9 looking over our back in that it is still a problem to  
10 some extent. We recently have however attracted  
11 several of our competitors' senior type of player  
12 development people and along with Bucky Howard I  
13 believe we will see improvements there. We have the  
14 cost controls and checks and balances in place to make  
15 certain that the credit abuse and those kinds of  
16 things that can happen in a highroller place don't.

17 Q Was that forecast which was essentially  
18 developed in February more optimistic than it has  
19 turned out as to the recession and its impact?

20 A Yes, it is. I think if the Commissioners  
21 will take a look at page four that's where we used the  
22 different forecast scenarios, Mr. Chairman.

23 CHAIRMAN PERSKIE: Page four of 67?

24 MR. FUSCO: A-76.

25 A The yellow line there is the projection we

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1 have to keep for gross operating profit and we fell  
2 far short in particularly April and May where we  
3 experienced disruption. However, with July and August  
4 which now are actual numbers for July and projected  
5 actual for August, we are now starting to approach the  
6 higher gross operating profit than we projected in the  
7 first scenario back in April.

8           The second or on page five the  
9 industry table drop which is the red line is the  
10 actual that the industry experienced, and the green  
11 line was a projection that the industry as a whole  
12 anticipated for table game drop. We can see the  
13 effect of April, May and June. The table game drop in  
14 the industry, of the whole industry was far under the  
15 projection and on page six you can see Castle's table  
16 game drop. It pretty much mirrors the industry's  
17 problem with the exacerbated dip in the month of May.

18           Q     The Castle has obviously revised its  
19 forecast. That's what A-67 is. You revised it in  
20 light of the reality of the first six month's  
21 performance. Have you--you developed though at the  
22 same time as the forecast in February a strategic  
23 plan, a business plan. Has that been revised, Mr.  
24 Wagner?

25           A     It has been tweaked, but it has not been



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1 changed much at all. The time elements of it have  
2 changed a little bit and the expectations that certain  
3 things come to fruition by July, some of those things  
4 have been moved back as much as 12 months. The turn  
5 around is evidenced by Resorts and Claridge and some  
6 of the other places that have gone through this have  
7 taken 18, 24, 36 months. I think we have a real good  
8 foundation for the turn around of the Castle in place  
9 and given the time and consistency I think it is real  
10 important, we will achieve our objectives.

11 Q The component of the policy cost  
12 containment and expenses containment, are you  
13 abandoning that or does that stay in place?

14 A That is not a project, that is part of our  
15 365 day plan.

16 Q And the same concept, the reduction in the  
17 hotel rates, the incentive plans, all of that is  
18 moving forward?

19 A We are looking at our rates all the time  
20 and our prices so that we are competitive based on our  
21 marketing objective. They may go up, they may go  
22 down.

23 Q You also testified in April that part of  
24 the difficulty with the 1990 results was the negative  
25 impact that the opening of the Taj Mahal had on the

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1 Castle. Can you inform the Commissioners as to what  
2 you have done and what you intend to do with regard to  
3 any further impact, negative impact from the Taj Mahal  
4 operation?

5 A Well, we are continuing to seek out  
6 additional new markets. Obviously the line extension  
7 of Trump's name caused us to share some customers  
8 among each other and we want to make our place the  
9 casual Trump facility, the resort on the bay. We are  
10 focusing our attention on repetitive business. Our  
11 captivity at the Castle will allow us to play with  
12 odds a little better than places on the boardwalk so  
13 we can give the customer a little better deal, they  
14 tend to stick around a little longer and can rent our  
15 space for a longer period of time with the same amount  
16 of money. We will use that as a marketing ploy. We  
17 are also focusing, as you can see from our billboards  
18 and our radio advertising, on the boardwalk. We are  
19 attacking the boardwalk. That's where our biggest  
20 opportunity is in the slot market.

21 Q There were also forecasts by the Castle of  
22 EBITDA or gross operating profit as those terms may be  
23 almost interchangeable or precisely interchangeable,  
24 but there are forecasts as to 1989 and 1990. They  
25 related to a prior license proceeding and they were

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1 prepared in December 1988. As it turns out the  
2 forecast--forecasted income for that period and what  
3 was achieved, it was not achieved, it was not achieved  
4 by significant margin. Could you indicate to the  
5 Commissioners, although you weren't present, as a  
6 matter of fact, you were competing with the Castle at  
7 the time that those forecasts were operative, can you  
8 articulate the factors that contributed to the  
9 unfavorable variance from those forecasts, Mr. Wagner?

10 A Well, that was three presidents ago and I  
11 am sure each one of them was as optimistic as I was  
12 when I came in with their projections. I look back on  
13 some of the assumptions that they used and the  
14 industry itself in '89 was looking towards eight  
15 percent increase in growth and, in fact, experienced a  
16 2.6. The Castle was looking for a 13 percent growth  
17 and it kept the five point margin but only had an  
18 eight percent growth. In 1990 the Castle management  
19 had no idea that the impact of the Taj would be so  
20 devastating on the Castle as it was, I mean it was  
21 just totally off there as it was I think in the  
22 industry, every place, but the Claridge and the Sands  
23 felt it.

24 Q The Castle during that period also was  
25 building a new hotel tower. Was that part of the

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1 assumptions that went into those earlier forecasts?

2 A Yes. The new towers have a million dollar  
3 investment. Certainly the management had expectations  
4 that it would get back some return.

5 CHAIRMAN PERSKIE: Excuse me, Mr.  
6 Fusco, I'm very sorry to interrupt but I'm having a  
7 problem and it's distracting me and I wonder if you or  
8 Mr. Wagner can help. I'm on page three of A-67.

9 MR. FUSCO: Yes, Mr. Chairman, sorry.

10 CHAIRMAN PERSKIE: The line where it  
11 says income from operations about halfway down.

12 MR. FUSCO: Yes, sir.

13 CHAIRMAN PERSKIE: And then there is  
14 a dotted line and a line underneath that that doesn't  
15 bear a title over it to the left but runs out to the  
16 26 million number.

17 THE WITNESS: Yes. Under the  
18 Commission format depreciation is put above the line  
19 for reporting purposes, but from our format for gross  
20 operating profit or EBITDA, depreciation is added back  
21 on.

22 CHAIRMAN PERSKIE: So the difference  
23 there, for example, on the left between the four  
24 million dollar number and the 26 million dollar adds  
25 back to 21 million from depreciation?

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1 THE WITNESS: That's correct.

2 CHAIRMAN PERSKIE: Sorry to

3 interrupt. That does it.

4 BY MR. FUSCO:

5 Q You were describing or explaining how the  
6 assumptions that were the basis for the '89/'90  
7 forecasts, some of the assumptions did not prove to be  
8 accurate as those years lived themselves out. There  
9 was an assumption that involved switching the focus  
10 from bus patrons to car patrons or drive-in business.  
11 Could you describe how that assumption panned out?

12 A That never happened. It's something that  
13 I think we like to see at the Castle as much as  
14 Harrah's has done is something that is long range in  
15 my plans, but something that we can't turn off the  
16 pipe of the bus people without an alternative plan.  
17 So it's overassumed there.

18 Q Our current forecasts obviously  
19 contemplate what we think accurately as far as the  
20 impact of the Taj Mahal in future periods; is that not  
21 correct?

22 CHAIRMAN PERSKIE: Excuse me, you

23 said Taj Mahal.

24 BY MR. FUSCO:

25 Q The impact of the Taj Mahal on the Castle

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1 which was adverse in 1990 and I think it's quantifying  
2 itself so we can deal with it now in 1991 and '92, and  
3 also the switch from the bus patrons to drive-in  
4 traffic is something that has been a focus and is  
5 beginning to be accomplished, is that not so, Mr.  
6 Wagner?

7           A       Yes. I have provided a graph on slot  
8 revenue in particular because that's where we now--as  
9 you see on graph eight, the Castle slot win is  
10 penetrating the projection in August from where we  
11 thought we would be in our original projection.  
12 Albeit we didn't make it in the first six months, we  
13 are now overachieving the slot revenue we projected  
14 for August and it looks like we will in September,  
15 October based on what's on the books. In addition, on  
16 page nine is a graph which shows slot profitability.  
17 Let me define that. Slot profitability is the net  
18 slot revenue after direct marketing expense, coin, the  
19 bus coupons, the comp food, advertising specific to  
20 buses, and the net slot profitability in comparison to  
21 1990 lagged behind until June 2 where we started to  
22 make our move with the new slot floor and then since  
23 the middle of June we are about \$500,000 a week more  
24 profitable from our slot revenue even though slot  
25 revenue isn't \$500,000 better a week than it was last

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1 year. So the profitability of slot revenue has  
2 inclined considerably.

3 CHAIRMAN PERSKIE: By reason  
4 primarily of an increase in the volume or a decrease  
5 in the cost attributable to that revenue?

6 THE WITNESS: Actually an increase in

585

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1 brought 10,000 more people in for the week with about  
2 the same revenue, but that like the stock market will  
3 bob up and down but it has the right incline now for  
4 us. The key now is bringing in more customers. We  
5 found that the one thing that does correlate to  
6 revenue is filling that parking garage and I still  
7 don't have oil on the top two floors. We need oil  
8 drops on the concrete and then I will be happy. We  
9 would be full like Harrah's.

10 Q Mr. Wagner, on page 15--

11 CHAIRMAN PERSKIE: Sorry, what does  
12 that mean?

13 MR. FUSCO: Oil on the parking lot  
14 means you have cars parking in the spaces, you are  
15 full.

16 CHAIRMAN PERSKIE: Sorry. I thought  
17 he had some sophisticated explanation for what that  
18 meant.

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1 BY MR. FUSCO:

2 Q Mr. Wagner, on page 15 does that reflect  
3 also the disruption in the casino reconfiguration  
4 during April and May?

5 A Yes. While our win per patron was not as  
6 low as it has historically been considering we had  
7 less people in the place, we went to our lowest during  
8 that period of time.

9 Q The current forecasts, A-67, take into  
10 account certain operational assumptions. Are they set  
11 forth, articulated somewhere in these documents?

12 A Yes. On page 13.

13 Q In the charts, A-76.

14 A 12 and 13 and 14 there is significant  
15 operational assumptions. Our reconfiguration has  
16 played a big role in putting our product in place. We  
17 are focusing on advertising and marketing, on theming  
18 the Castle, setting the Castle apart from both the  
19 other Trump properties as well as the boardwalk and  
20 really using the communicative name of our property as  
21 the Castle. In fact, in a couple of days I will be  
22 going out to see what I can steal from the Excalibur  
23 that might fit into the Castle without getting too  
24 hokey. Our advertising, we will start moving into  
25 cable television and maybe some network television as



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1 our resources climb and we get our cash balance above  
2 the 15 million dollars.

3 Q Now, there are 10 operational assumptions  
4 set forth there. They speak for themselves. Are  
5 there any specifically that you want to comment on,  
6 Mr. Wagner?

7 A I think I pretty well hit them all with  
8 the graphs.

9 Q The forecast for 1991, the 26.3 if I have  
10 it right, the million dollar EBITDA, how does that  
11 compare to 1990 performances and the forecast for 1992  
12 which is 33 million dollars and 1993 which is 42  
13 million dollars?

14 A In comparison to last year it's just a  
15 slight improvement of a couple hundred thousand  
16 dollars, virtually flat. In 1990 from July to the end  
17 of the year it was a disaster and during the first six  
18 months of 1991 it was almost as bad, particularly  
19 January and May. Those were two horrible months which  
20 with consistency with the new slot program in place  
21 and our Gold card in place, we believe that we have  
22 four million dollars of improvement in the first  
23 quarter of 1991--or '92 over what we experienced this  
24 last half. We have been very, very conservative in  
25 our second half of 1992, almost mirroring what we

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1 expected to do in the last half of 1991. '93 is when  
2 we think we will start seeing the improvements carried  
3 forward based on the consistency, everybody in place  
4 and our table games play coming back, although all of  
5 our operating assumptions never show us reaching above  
6 85 percent efficiency in table games or above 92  
7 percent in slots. We have a lot of capacity,  
8 opportunities at the Castle.

9 CHAIRMAN PERSKIE: Excuse me, what  
10 was the '90 actual?

11 MR. FUSCO: 26.6, am I right? 26  
12 flat.

13 CHAIRMAN PERSKIE: So essentially  
14 your projection at A-67 at 26.3 is for all practical  
15 purposes you are saying you are not going to do any  
16 worse than you did last year?

17 THE WITNESS: That's correct. As I  
18 also said, we have almost 17 million of the 26 already  
19 through today and anticipate having 20 of that by the  
20 end of this month or close to it.

21 BY MR. FUSCO:

22 Q Mr. Wagner, in preparing for these  
23 proceedings, you had an occasion to review the reports  
24 prepared by the Division and the Commission; is that  
25 not so?

Wagner - Direct by Fusco

1           A     That's right.

2           Q     And in the Division report at page 19 it  
3 indicates that if the Castle is able to achieve  
4 operating income levels similar to its 1990 and first  
5 six months 1991 results, it should be able to meet its  
6 obligations. What factors lead you to believe that  
7 you can achieve operating income levels similar to  
8 1990 and the first six months of 1991?

9           A     Well, there are three. Basically July and  
10 August are giving us a great feel of comfort because  
11 we are overachieving the projections. We have reason  
12 to believe we can maintain that trend through the rest  
13 of the year. We forecasted very conservatively in  
14 December a loss and we know that January and May  
15 without the disruption that we experienced last year  
16 and with the cost containment in place should be worth  
17 at least three to four million dollars at a minimum.  
18 So we are very comfortable we will achieve those  
19 numbers.

20           Q     The Division also states in its report on  
21 page 20 that the Castle's cash position excluding  
22 casino funds was 2.7 million dollars on August 2.  
23 Therefore, it must generate 7.3 million in cash during  
24 the last five months of 1991 if it is to satisfy its  
25 cash liquidity reserve by the end of this year. Is

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1 that goal an attainable one in your opinion?

2 A I think 2.7, and they calculate that  
3 different, different accountants, 3.1 was my  
4 calculation of bottoming out of cash from our cage,  
5 but 7.3 million in that neighborhood we will need to  
6 generate and we should generate close to five of that  
7 this month.

8 Q Do you agree that if the Castle can meet  
9 the cash reserve it appears that through the license  
10 period it will be able to fund its reduced cash debt  
11 service and other requirements?

12 A Yes.

13 Q Now, the Commission on I'm not sure if it  
14 was June 26 or July 31, but indicated that if no  
15 additional line of credit facility is needed describe  
16 why no additional line of credit facility is needed  
17 and describe alternative contingent cash resources  
18 that are available to the Castle. There is a feature  
19 in the reorganization plan, Mr. Wagner. How does that  
20 feature relate to the need of the Castle for an  
21 outside line of credit?

22 A Under the restructuring proposal we in  
23 effect build in three in-house credit lines of cash, a  
24 liquidity reserve of 10 million dollars above our five  
25 million dollar house fund requirement, an additional

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1 six month projected capital expenditures reserve and  
2 an additional six month CRDA expected reserve which  
3 will be in the neighborhood of three and-a-half  
4 million to five million dollars total above the 10.  
5 In effect, we have three credit lines from which to  
6 dip into for operating needs which include paying the  
7 interest, if necessary, and the maximum interest pay  
8 in 1992 is 9.6 million dollars.

9 Q You also had occasion to review the  
10 Commission staff report from its Division of Financial  
11 Evaluation, did you not, Mr. Wagner?

12 A Yes.

13 Q And contained in there is a break even  
14 scenario and at that page, I believe it's 23, the  
15 conclusion is that based on its minimum cash  
16 requirements the Castle would be able to withstand up  
17 to a 21.5 percent average decline in its forecasted  
18 EBDIT and thus appearing to have some financial  
19 flexibility with respect to stability from its  
20 projected EBDIT. Do you agree with the statement that  
21 on the basis of the break even scenario the Castle  
22 could withstand a 21.5 average decline and still meet  
23 your obligations?

24 A Yes. This gives us considerable  
25 flexibility. As you can see 1.8 million dollars would

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1 be required in EBDIT for the last six months of '91  
2 under their sensitivity analysis here, break even  
3 analysis. We are going to do 11 million in July and  
4 August. So we will have exceeded that by 9.2. We  
5 have, as I said, 17.8 million already, through the  
6 month to date or year to date as of today and expect  
7 to have 19 to 20 million by the end of this month.

8 Q In your opinion after considering the  
9 first half of 1991 operating results and the  
10 restructuring plan as detailed in the registration  
11 statement, are the financial projections which are  
12 contained in exhibit A-67 in your opinion reasonable  
13 and attainable through May 16, 1993?

14 A They are, and after reading Resorts'  
15 financial results this morning we achieved their  
16 second quarter GOP very early in time in our turn  
17 around so I am really comfortable after we did that.

18 Q In your further opinion after considering  
19 the forecasts and the operating results and the  
20 financial impacts that restructuring will have, does  
21 the Castle have financial stability and adequate  
22 financial resources in your opinion for the operation  
23 of its casino through May 1993?

24 A Adequate, not inadequate.

25 Q Adequate, yes, exactly.

Wagner - Cross by Flaherty

1  
2 MR. FUSCO: Mr. Chairman, that's the  
3 direct.

4 CHAIRMAN PERSKIE: We have some  
5 questions I think up here, but let's get the Division  
6 to go first.

7 CROSS-EXAMINATION

8 BY MS. FLAHERTY:

9 Q Mr. Wagner, I believe that you said the  
10 current cash balance of the Castle is approximately  
11 \$10,648,000?

12 A As of this morning.

13 Q How much of that figure includes house  
14 cash?

15 A Approximately five million.

16 Q And is the 10 million plus figure net of  
17 outstanding checks?

18 A Yes, it is.

19 Q Does it include funds in transit?

20 A Yes.

21 Q Is the restricted \$500,000 progressive  
22 fund included in the amount?

23 A Yes, it is.

24 CHAIRMAN PERSKIE: Sorry, what's  
25 that?

MS. FLAHERTY: The \$500,000 jackpot.

Wagner - Cross by Flaherty

1 THE WITNESS: Progressive jackpot.

2 CHAIRMAN PERSKIE: The in-house  
3 progressive?

4 THE WITNESS: Yes.

5 MS. FLAHERTY:

6 Q Now, over this weekend, August 10 and 11,  
7 did the Castle play lucky?

8 A Yes, we did.

9 Q And were the hold percentages  
10 approximately in the 30 percent range?

11 A Yes, they were.

12 Q Are those hold percentages typical?

13 A No.

14 Q Can they be expected to continue?

15 A I hope so, but they won't.

16 Q Did those unusual hold percentages enable  
17 the Castle to meet its forecast so far this month?

18 A Yes, they did.

19 CHAIRMAN PERSKIE: Sorry, the hold  
20 percentage on what?

21 MS. FLAHERTY: These were the hold  
22 percentages in the casino on Saturday and Sunday.

23 THE WITNESS: On table games.

24 CHAIRMAN PERSKIE: And the table  
25 games as a whole were what, the hold?



Wagner - Cross by Flaherty

1 MS. FLAHERTY: 32 percent on the 10th  
2 and 38 percent on the 11th.

3 CHAIRMAN PERSKIE: Overall for the  
4 table games?

5 THE WITNESS: Yes. We changed dice.

6 CHAIRMAN PERSKIE: The transcript is  
7 not going to pick up the laughter.

8 Do you have any, seriously, I mean  
9 other than the luck of the game, is there any  
10 explanation for why the table hold is that high?

11 THE WITNESS: We are balancing out.  
12 To address Mary Jo's remarks, several people who have  
13 been beating our brains out for the last 60 days, we  
14 got lucky. They came in and we play with these big  
15 folks. It did not effect the cash situation though  
16 because about \$1,600,000 of it was credit which only  
17 about \$600,000 is redeemed. So we will see a million  
18 dollar boost in September.

19 CHAIRMAN PERSKIE: From collecting?

20 THE WITNESS: From collecting, all  
21 from credit though.

22 MS. FLAHERTY:

23 Q Mr. Wagner, with regard to the cash  
24 position currently, do you anticipate in your future  
25 any significant deposits, receipts or expenses that

## Wagner - Cross by Flaherty

1 would dramatically effect your cash position?

2 A No. I think we pretty much have all those  
3 covered. Obviously someone could come in and beat us  
4 like we beat them. Somebody could hit that slot  
5 jackpot and get cash for that. We have pretty well  
6 cleaned up litigation and balance sheets are really  
7 clean on that side of it.

8 Q Are you depending on any significant  
9 amounts coming in?

10 A No.

11 Q Now, is Castle's potential liability under  
12 its four largest progressive jackpots approximately  
13 1.8 million dollars?

14 A Yes.

15 Q Now is Castle's cash which includes its  
16 \$500,000 reserve the only source of funds to pay those  
17 jackpots?

18 A That's correct.

19 Q If Castle's largest jackpot, which is  
20 about a million dollars, was hit, what funds would you  
21 utilize to pay that prize, your cash?

22 A Our investment funds, yes.

23 Q Now, based on our review as of August 2,  
24 Castle's available cash declined to 2.7 million and  
25 you have stated that that might be 3.1 with some

## Wagner - Cross by Flaherty

1 additional funds available?

2 A Yes.

3 Q What steps, if any, did Castle implement  
4 to ensure that it could meet this progressive jackpot  
5 exposure in light of your low cash figure on that  
6 date?

7 A Well, in addition to the three million,  
8 2.7 or 3.1 which was the lowest one day fluctuation,  
9 we had five million dollars in house funds available  
10 to us which are adequate to take most of our spikes,  
11 not a million dollar spike maybe on a slot hit, but to  
12 pay most of the day-to-day needs.

13 Q On August 2 when you had that low cash  
14 balance, was that of concern to you in terms of the  
15 operation of the facility?

16 A No. We totally anticipated that spike  
17 coming as a result of paying the tax. Several other  
18 tax hits came about as well, unemployment or one of  
19 those taxes hit along with the 2.2 million dollars of  
20 city property taxes. We projected that would be the  
21 lowest balance during the whole period.

22 Q So you anticipated that that balance would  
23 occur?

24 A Yes.

25 Q Could you have delayed paying vendors to

## Wagner - Cross by Flaherty

1 keep the balance higher?

2 A We could have. That would have been an  
3 alternative method of financing. We didn't see it as  
4 a need in August.

5 Q So you didn't consider doing it?

6 A No.

7 Q Does the Castle have any particular bank  
8 accounts now which it would seek to retain an amount  
9 against which it wouldn't want to go any lower?

10 A Zero.

11 Q Based on the current debt structure prior  
12 to the reorganization, would Castle have been able to  
13 satisfy its debt service obligations in '91?

14 A No.

15 Q And you did not make those payments that  
16 were due under those obligations; is that correct?

17 A That's correct.

18 Q And why was that determined?

19 A We determined that shortly after our  
20 license hearings and we started seeing the disruption  
21 from the casino floor. I conferred with Mr. Ribis and  
22 indicated I thought we were going to probably have  
23 some problems. He conferred with Mr. Trump. He  
24 started talking with the bondholder representatives at  
25 that point. We understood at that point the

Wagner - Cross by Flaherty

1 restructuring was the only long-term viable way to  
2 take the Castle out of this six month booby trap we  
3 were in and get it on a long-term footing.

4 Q During the summer months would it be your  
5 opinion an Atlantic City casino should build its cash  
6 reserve in the summer?

7 A Yes.

8 Q And has the Castle been able to do that so  
9 far this summer?

10 A We have had some one time unusual expenses  
11 to pay. We generated approximately five and-a-half  
12 million dollars in--between June 15 and July 31 which  
13 we paid a significant portion for restructuring  
14 expenses, paid a million dollars to Midlantic Bank and  
15 a deposit for that restructuring agreement and paid  
16 payables down to an additional \$750,000 and paid out  
17 litigation settlements that we had deferred from early  
18 in the year that we had scheduled to make in July of  
19 about \$750,000.

20 Q In terms of the restructuring expenses I  
21 believe the Castle paid Midlantic a one million dollar  
22 fee to reduce and restructure the construction and  
23 credit line loans; is that correct?

24 A I believe so.

25 Q And if the plan is confirmed, it's our

Wagner - Cross by Flaherty

1 understanding if the plan is confirmed by July of '92  
2 that that fee would be returned to the Castle?

3 A Yes, that's my understanding.

4 Q And do your projections include the return  
5 of that amount?

6 A Yes, they did.

7 CHAIRMAN PERSKIE: Excuse me, that's  
8 going to be a return or a credit against the  
9 obligations to Midlantic?

10 THE WITNESS: Actual cash returned.

11 BY MS. FLAHERTY:

12 Q Now, the Castle is forecasting increases  
13 in its cash balance, but is it correct that Castle's  
14 performance has only really improved over the last two  
15 month period?

16 A It's exceeding the projections now and  
17 approaching the original projections in slots. As of  
18 the last month and July was very encouraging, the up  
19 trend there. The consistency is starting to come  
20 about.

21 Q Has Castle's management made any attempts  
22 to secure a credit line?

23 A No.

24 Q Would a credit line provide management  
25 with flexibility?

## Wagner - Cross by Flaherty

1           A     To some extent if we did not have the cash  
2 balance above our house funds. Having worked with  
3 very small house funds at the Claridge and a small  
4 credit line, two and-a-half million dollars, three  
5 million dollars is probably adequate.

6           Q     With the funds available to the Castle in  
7 its cash accounts, is it positioned to take advantage  
8 of market conditions?

9           A     Yes, I believe so. I have recently raised  
10 the limits to certain phases again based on summer and  
11 our ability now to be consistent with customers to the  
12 extent we want to.

13          Q     Is Castle in the position to compete with  
14 casinos that have large cash deposits or other  
15 available credit?

16          A     With our competitive limits, yes.

17          Q     During the remainder of 1991, does Castle  
18 have any major cash outlays?

19          A     Only the tax payment on November 1 which  
20 is 2.2 million.

21          Q     And you are also responsible for interest  
22 payments on the Midlantic loans?

23          A     We will pay them in kind.

24          Q     The interest on the Midlantic loans?

25          A     On Midlantic loans they will be current,

## Wagner - Cross by Flaherty

1 they are current now.

2 Q But that will be a cash outlay?

3 A About six million dollars.

4 MR. RIBIS: \$500,000 a month.

5 CHAIRMAN PERSKIE: Flags would help.

6 THE WITNESS: \$500,000 a month.

7 CHAIRMAN PERSKIE: Before you leave  
8 that thought, do you have a cash commitment to the  
9 CRDA between now and December?

10 THE WITNESS: We have some credits  
11 left, a small amount. No cash, all credit. We  
12 donated most of ours for credit.

13 BY MS. FLAHERTY:

14 Q Now, for 1992 would the same hold true,  
15 you will have major cash requirements to the Midlantic  
16 loans, real estate payments, payroll, those would be  
17 your major expenses?

18 A Yes.

19 Q Do Castle's forecasts provide management  
20 with sufficient funds for capital improvements?

21 A We have a certain amount of capital  
22 improvements in each year of the restructuring  
23 adequate we believe, four and-a-half or five million  
24 next year and then escalates to nine million in the  
25 final years, doesn't allow us to build a new tower,



## Wagner - Cross by Flaherty

1 but allows us to keep everything up-to-date, slot  
2 equipment. We change now about one-third of our  
3 equipment a year.

4 Q So in your view management will not need  
5 additional funds for capital expenditures to remain  
6 competitive?

7 A No.

8 Q In 1990 and for the first six months of  
9 '91 revenues declined. Can you briefly state the  
10 reasons why you found that to be the case when you  
11 arrived at the Castle?

12 A Revenues were declining at the Castle  
13 through 1990 after the Taj opened. That was further  
14 exacerbated in 1991 when we terminated certain  
15 unprofitable marketing functions such as junkets. We  
16 were fueling a lot of revenue which was bringing no  
17 money to the bottom line. So we cut the expenses  
18 related to that. We also cut the revenue.

19 Q Now, you have addressed the steps that  
20 management is taking to reverse those trends in your  
21 direct. How do those steps differ from the tactics  
22 that were implemented by other casino competitors such  
23 as Claridge or Resorts?

24 A We are setting our tactics and our  
25 strategies specifically for the Castle. We are taking

Wagner - Cross by Flaherty

1 advantage of our physical facility, our geographical  
2 location and we are going to carve out our own  
3 identity. I think we are at this point achieving  
4 that. We are looking to carve out that 7.28 percent  
5 of the market that resort facility on the marina will  
6 appeal towards and we are trying to differentiate  
7 ourselves from the Marina, Harrah's Marina. We find  
8 them hard to penetrate right now. They won't be our  
9 dinner, hopefully they will be our lunch.

10 Q Will it take longer to improve yourselves  
11 to be realizing table games than it has in the slot  
12 area?

13 A Yes. We have seen declined drops  
14 throughout the city. Several hundred million dollars  
15 this year in decline. Some of that again is the  
16 result of our competitors. It's also not fueling  
17 expensive programs and pulling in more customers  
18 specific instead of a program phanatic, if you will.

19 Q Now, from a review of the forecast it's  
20 anticipated that noncasino revenue will follow the  
21 trend of increased casino revenue even though the  
22 number of patrons is not expected to increase. Why is  
23 that?

24 A We believe there will be no more serious  
25 building of additional hotel related facilities in the

## Wagner - Cross by Flaherty

1 next couple years during the license period and that  
2 the price increases in the city will probably increase  
3 with inflation.

4 Q Castle is predicting in its forecast that  
5 the industry win will grow by five percent in '92.  
6 Given the results in '90/'91, can you state why that  
7 forecast is reasonable in your view?

8 A This is the first year that we have the  
9 Taj to look at for a full year to prepare a base. We  
10 also, knock on wood, won't have a war to face in the  
11 first quarter of 1992.

12 Q Castle market shares declined since the  
13 opening of the Taj Mahal; is that correct?

14 A Yes.

15 Q But in 1992 and 1993 management expects  
16 Castle's market share to increase I guess by .2  
17 percent each year?

18 A Very marginal increase. We believe that  
19 our strategies are working and we will slowly  
20 penetrate our market on the boardwalk and bring  
21 patrons into the Castle that weren't at the Castle  
22 prior.

23 Q What casinos do you anticipate would lose  
24 market share to make up for your gain in market  
25 share? Or do you view that as so marginal that it's

## Wagner - Cross by Flaherty

1 not really an issue?

2 A All 11 of our competitors to some extent  
3 and if we are successful all 11 of them will feel a  
4 small loss.

5 Q In view of the Castle's low cash position,  
6 won't other casinos be better positioned to compete  
7 and obtain customers given their greater cash  
8 resources as compared to the Castle?

9 A If they go off half cocked they might,  
10 yes.

11 Q Now, have Castle's forecasts for the past  
12 two years, especially the last six months, been  
13 reliable?

14 A I think we testified to the erroneous  
15 assumptions that I made for the projections this year,  
16 although I think over the three years the Castle has  
17 an opportunity to meet the long range goals set  
18 forth. The projections of the previous three  
19 presidents I can't speak for.

20 Q Now Castle is expecting the negative  
21 growth rates in both table win and slot win to be  
22 reversed in '92; is that correct?

23 A Yes.

24 Q And you are anticipating significant  
25 prospective growth rates in the next two year period,

## Wagner - Cross by Flaherty

1 correct?

2 A Reasonable, yes.

3 Q Now, have Castle's negative trends been  
4 halted so far in '91?

5 A We have started to arrest the negative  
6 trend in slots. As was indicated we beat last year's  
7 in July, achieved it in June, we will exceed it again  
8 in August. We are even meeting and exceeding  
9 projections in August in slots. So I believe we have  
10 arrested that problem. We are hopeful we will arrest  
11 the decline in the table game win before the end of  
12 the year.

13 Q In your view is a 10 million dollar amount  
14 an adequate cash reserve for Castle?

15 A Yes.

16 Q When do you anticipate the Castle would  
17 reach that reserve?

18 A If we meet projections, slightly after the  
19 end of the year. We are projecting to be 14.7 million  
20 on December 31. Assuming five million in house funds  
21 we are slightly short.

22 Q Did Castle's forecasts contain any  
23 contingency funds?

24 A No.

25 Q Mr. Wagner, could you look at table two in

Wagner - By Chairman Perskie

1 Exhibit 76. Now, you stated that the Trop and  
2 Claridge have been deleted from the comparison. In  
3 light of the funds that are available to the Bally,  
4 and it is Bally's and Bally's Grand, why have they  
5 been included in the average?

6 A We were under the understanding that Trop  
7 and Claridge while their balances are extremely low in  
8 cash of credit lines they can tap into for capital  
9 needs. Perhaps Bally's can draw from their parent, I  
10 don't know where. The other properties probably can  
11 draw from their parents as well. I don't think  
12 Harrah's or any of those folks have ever done it.

13 MS. FLAHERTY: I don't think I have  
14 any further questions.

15 CHAIRMAN PERSKIE: Thank you.

16 Mr. Schupper?

17 MR. SCHUPPER: I have no questions.

18 EXAMINATION

19 BY CHAIRMAN PERSKIE:

20 Q Mr. Wagner, you have in front of you A-67  
21 which is the current projection. Do you have the  
22 copies of the old exhibit A-44?

23 A I believe Mr. Fusco has them.

24 MR. FUSCO: Excuse me.

25 CHAIRMAN PERSKIE: Very impressive.

Wagner - By Chairman Perskie

1 MR. FUSCO: It almost made it all the  
2 way over.

3 BY CHAIRMAN PERSKIE:

4 Q I want to focus on a comparative basis.  
5 Do you find the 1991 sheet in A-44?

6 A Yes.

7 Q That's the one that shows--

8 A 22.791.

9 Q But then it doesn't have a line underneath  
10 it. I got confused about the other one. So if you  
11 add back the 21 and-a-half million dollar  
12 depreciation, it would bring us out to about 44  
13 million?

14 A That's right.

15 Q What I want to do is compare that for a  
16 minute or some of the items in it with the present  
17 version of it which is page three of A-67.

18 A Yes.

19 Q Starting at the top if I understand in  
20 term of net revenues you are projecting now about 224  
21 as against an original projection of 251 million?

22 A Yes, sir.

23 Q But that reflects virtually no change in  
24 promotional allowances so that the reduction there is  
25 almost entirely from reduced gross volume; is that

Wagner - By Chairman Perskie

1 right?

2 A Yes.

3 Q The--you testified as to a change in comps  
4 policy. That's not reflected in these dollars?

5 A We have flattened the comps out from what  
6 we experienced during the first six months. We were  
7 comping at a pace on the promotional allowances about  
8 12 and-a-half percent of revenue and we think we have  
9 to maintain that. We can't go much lower. We went a  
10 little lower than that in March and it hurt us a  
11 little bit.

12 Q So that most of that revenue reduction  
13 then is from basically fewer customers?

14 A Yes.

15 Q Now, on the expense side you show an  
16 original projection operating expense of 229 million  
17 and now about 220. So you have got about a nine, 10  
18 million dollar reduction in operating cost. Where is  
19 most of that reduction to be found? What is it that  
20 has been cut to affect that?

21 A Some of that is a marketing expense and in  
22 cost of goods. I can't give you all of the line item  
23 categories. I would have to defer to Mr. Venier.

24 Q For example, I notice the largest single  
25 item is in selling, general, administrative, 73.9 to



Wagner - By Chairman Perskie

1 66.3, savings of about seven and-a-half or so million  
2 dollars.

3 A Some of that is savings and gross revenue  
4 tax.

5 Q Put that under general administrative? Is  
6 that the eight percent you are talking about?

7 A One of those two lines, cost of goods or  
8 selling in general.

9 Q What I was getting at is to what extent  
10 does that reflect a general staff reduction? Do you  
11 have any idea with any specificity at this point where  
12 you were in April and where you are today with respect  
13 to staffing levels?

14 A We are currently running at approximately  
15 3,000 full-time equivalent people. It fluctuates week  
16 to week a little bit, but we peaked out at 24 hours at  
17 3,073 and declining back down. We are saving  
18 approximately eight hundred to \$900,000 a month over  
19 last year in payroll.

20 Q \$800,000 is--

21 A About a million one, million two in the  
22 payroll savings. We had originally projected nine  
23 million in payroll savings. So we are overachieving  
24 that.

25 Q What--do you have any idea what that

Foss - Direct by Fusco

1 translates to into numbers of people?

2 A It's about 300 less people.

3 Q About 10 percent then?

4 A Yes.

5 Q And the nonoperating expenses, roughly  
6 about three million dollar savings there. Most of  
7 that by the time you net it out in interest I guess.

8 CHAIRMAN PERSKIE: Vice Chair?

9 VICE CHAIR ARMSTRONG: No.

10 CHAIRMAN PERSKIE: Commissioner

11 Waters?

12 COMMISSIONER WATERS: No.

13 CHAIRMAN PERSKIE: Commissioner

14 Hurley?

15 Ms. Flaherty, anything further?

16 MS. FLAHERTY: No.

17 CHAIRMAN PERSKIE: You may step down,

18 Mr. Wagner. Thank you.

19 MR. FUSCO: The licensee would call

20 Warren Foss to the stand.

21 W A R R E N M. F O S S, having been first duly

22 sworn, testified as follows:

23 DIRECT EXAMINATION

24 BY MR. FUSCO:

25 Q Mr. Foss, you previously testified before

Foss - Direct by Fusco

1 the Commission in these proceedings on June 17; is  
2 that correct?

3 A That is correct.

4 Q And you and your firm are financial  
5 advisors to the Bondholder Steering Committee?

6 A We are.

7 Q And the Steering Committee holds what  
8 percentage of the face value of the Castle bonds?

9 A Approximately 33 percent of the value of  
10 the bonds.

11 Q And who, meaning what entities, are  
12 members of the Steering Committee?

13 A Putnam Mutual Fund Company up in Boston,  
14 Maryland Chasset Management, Shearson Asset  
15 Management, Bearing America, a money management firm  
16 up in Boston, and Pacholder Associates out of  
17 Cincinnati.

18 Q The registration statement--

19 CHAIRMAN PERSKIE: Excuse me, Mr.  
20 Fusco, one moment, 33 percent of the value, any idea  
21 of an approximate--

22 THE WITNESS: About 95 million out of  
23 approximately 290 million accounting value as of the  
24 latest statements.

25 CHAIRMAN PERSKIE: And what about the

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1 number of holders, what percentage approximately?

2 THE WITNESS: Sorry, I don't have a  
3 ready answer to that question because inside each of  
4 the accounts they usually break the bonds down to a  
5 very large number of accounts and I just don't, I  
6 didn't bring that information readily. It's a lot  
7 larger than five. It's a fairly substantial number.

8 BY MR. FUSCO:

9 Q The registration statement that was filed  
10 setting forth the reorganization plan filed with the  
11 SEC and the Casino Control Commission on July 31, you  
12 are familiar with that; is that not correct?

13 A I sure am.

14 Q And it states that the Steering  
15 Committee's recommendation and acceptance of the plan,  
16 there is an exhibit that's been introduced into  
17 evidence here as A-68D which was provided on August  
18 2. Are you familiar with that and it bears your  
19 signature, sir?

20 A Yes.

21 Q And this afternoon we have admitted  
22 exhibits A-68G and A-68H. Are you familiar with  
23 those, sir?

24 A Yes, I am.

25 Q And A-68H is from counsel, Mr. Nutt, from

Foss - Direct by Fusco

1 the Steering Committee reaffirming the acceptance by  
2 the Steering Committee of the plan and that it would  
3 recommend it to the other bondholders. Do you confer  
4 and confirm and agree with Mr. Nutt's letter?

5 A Yes, I do.

6 Q Have you been in contact, Mr. Foss, with,  
7 other than your Steering Committee members, other  
8 bondholders?

9 A Extensively since literally going back to  
10 last December when we first got involved we have had  
11 conference calls with all bondholders, we have had  
12 faxes out, press releases, we have had mailings or  
13 press releases, we have had personal conversations  
14 with most of the bondholders that we know of,  
15 virtually all of the bondholders we know of.

16 Q And how many, if you know, institutional  
17 holders are there that you have identified?

18 A There are approximately 30, 31  
19 institutional holders that account for roughly 80  
20 percent of the bonds.

21 Q And the remaining 20 percent are what you  
22 call retail holders, sir?

23 A It appears that way. There may be one or  
24 two institutions that we are unaware of, but it  
25 appears that most of that happens to be retail and

Foss - Direct by Fusco

1 also consistent with what I believe was the selling  
2 practice when they were sold.

3 CHAIRMAN PERSKIE: Eight percent is  
4 the face value?

5 THE WITNESS: A little less than 20  
6 percent face value retail is what it appears to be.

7 BY MR. FUSCO:

8 Q And the regular contact you talk of is  
9 regular contact with the institutions among the 31  
10 holders that exist?

11 A And specifically those inside the  
12 institutions that deal with the Trump's Castle matter.

13 Q You described that back in December you  
14 have had since then and going forwarded contact.

15 A Yes.

16 Q There was an outline of principal terms  
17 that is dated June 15 that is an exhibit in these  
18 proceedings and that was revised and superseded by an  
19 outline of principal terms dated June 25 I believe and  
20 that was followed by, of course, the registration  
21 statement filed on July 31. Did the filing of those  
22 documents and the disclosure of those terms contained  
23 in the documents effect your ability to communicate  
24 with persons other than members of the committee?

25 A Yes. There has been public disclosures.

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1 We have I think fairly extensively talked with the  
2 group of bondholders to explain what has been going  
3 on, explain the terms of the deal, explain to them  
4 developments again of a public nature, not of a  
5 private nature, and I have had up through late  
6 yesterday afternoon those conversations. They have  
7 been ongoing and frequent in nature.

8 Q But since the filing of the registration  
9 statement which has a great deal of detail in it, you  
10 are now able to discuss in significant detail the  
11 reorganization plan as contemplated?

12 A That is correct, and we have done so.

13 Q It is anticipated and you have had  
14 experience in this regard, Mr. Foss, that the  
15 registration statement will be declared effective at  
16 some point by the SEC; is that correct?

17 A That is correct.

18 Q And you are aware that the Commission has  
19 indicated that--well, also upon it being declared  
20 effective a solicitation period will commence for  
21 bondholder acceptance, correct?

22 A That is correct.

23 Q And the Commission has indicated that  
24 within 20 days of the commencement of that period that  
25 the licensee provide evidence of the acceptance by

Foss - Direct by Fusco

1 bondholders, adequate number of bondholders to approve  
2 the plan. You are aware of that requirement, correct?

3 A Absolutely.

4 Q Have you thus far received an expression  
5 of support from the bondholders in your contact with  
6 them?

7 A Yes, we have.

8 Q In your opinion what is the requisite  
9 number of bondholders that must accept the plan for it  
10 to be approved?

11 A The number is a majority of those voting  
12 and there is also another requirement that it be  
13 two-thirds in principal amount.

14 Q Of those voting?

15 A It's two-thirds in principal amount and 51  
16 percent of those voting.

17 Q In your opinion, at the time that the  
18 Commission has indicated that we must present evidence  
19 in that regard, will the requisite number of  
20 bondholders have accepted the plan?

21 A Yes, I believe they will have.

22 MR. FUSCO: Mr. Chairman, that's what  
23 I have for Mr. Nutt--

24 CHAIRMAN PERSKIE: Thank you.

25 MR. FUSCO: --for Mr. Foss I mean.



## Foss - Cross by Flaherty

1 CROSS-EXAMINATION

2 BY MS. FLAHERTY:

3 Q Mr. Foss, were the forecasts that were  
4 provided to the bondholders for review and  
5 consideration substantially similar to the forecasts  
6 that have been marked as A-76 in this proceeding?

7 A You will have to familiarize me with A-76,  
8 I'm sorry.

9 Q I'm sorry, 67.

10 A The exhibit, that book that was just put  
11 in today?

12 CHAIRMAN PERSKIE: No.

13 MS. FLAHERTY: 67, sorry, the  
14 forecasts.

15 CHAIRMAN PERSKIE: The record will  
16 reflect the witness has been given a copy of A-67  
17 which is the forecast sheet that was filed in July.

18 A Yes, I am aware of this, sorry. Repeat  
19 the question.

20 Q Were the forecasts which were provided to  
21 the bondholders substantially similar to the forecasts  
22 that have been marked as A-67?

23 A Well, these forecasts have obviously been  
24 made public and I believe a number of bondholders have  
25 gotten ahold of them through the hearing. We did not

Foss - Cross by Flaherty

1 attempt to make these forecasts. Certainly we  
2 received them before they were made public, public  
3 information to a bondholder group. The Steering  
4 Committee was privileged to have this information and  
5 I think, you know, considered it in its evaluation.

6 CHAIRMAN PERSKIE: Well, that's I  
7 gather the thrust of the question. Is the information  
8 that the Bondholder Steering Committee got and that as  
9 far as you know the other bondholders have gotten  
10 consistent with that document that you have in front  
11 of you?

12 THE WITNESS: A-67?

13 CHAIRMAN PERSKIE: Yes.

14 THE WITNESS: Yes, sir, I believe  
15 that's correct.

16 BY MS. FLAHERTY:

17 Q Referring to A-67 what, if any, events  
18 could trigger a sale of the Castle property by  
19 bondholders as reflected in the forecast?

20 A There are two sets of circumstances  
21 broadly speaking that could trigger a sale, a failure  
22 to meet EBITDA target, an EBITDA target observation  
23 date, it's a slight lag from the reporting date, and  
24 the second is the nonpayment of interest which will  
25 give raise to I believe it's called the managing

## Foss - Cross by Flaherty

1 partner event which will also give rise to the ability  
2 of the bondholder corporation to sell. I only want to  
3 say I don't think those specifically relate only to  
4 A-67. Those are the general conditions that would  
5 cause it, yes.

6 Q For the record what is the first EBITDA  
7 target date?

8 A The first EBITDA target date is September  
9 30, 1992. That's the first end of the accounting  
10 period. Obviously there is a period in which you make  
11 the numbers known. It takes I think 45 days.

12 Q Can you describe the manner in which the  
13 five million dollar cage cash and the 10 million  
14 dollar liquidity reserve balances contained in the  
15 plan were derived?

16 A Yes. It did not strike us as being  
17 realistic that there would be working capital  
18 availability from banks over the near term and as we  
19 looked at it we felt that if we were participating in  
20 a restructuring of the facility that it would be  
21 important that the facility be restructured and we did  
22 not want to create what we felt would be under those  
23 circumstances a set of conditions that was  
24 unachievable to be successful in the reorganization  
25 and subsequently we came to a judgment as to the

Foss - Cross by Flaherty

1 amount of incremental cash that would be required.  
2 That's how we did it.

3 Q With regard to the liquidity reserve, can  
4 those funds be used to pay debt or must the fund be  
5 maintained by the Castle as cash accounts?

6 A There is a very complicated mechanism and,  
7 quite frankly, I will trip up a little bit on it, but  
8 I will speak generally in terms of how it works.  
9 There is a sweep mechanism that operates that  
10 maintains minimum levels of cash pre and the existence  
11 of any working capital line to the extent they are  
12 successful in negotiating one and sweep events are  
13 defined as, broadly speaking, as cash amounts over the  
14 15 target plus certain reserve items and those amounts  
15 would be used to retire debt, but you sweep down to a  
16 certain level. Does that answer your question,  
17 ma'am?

18 Q With regard to the 15 million dollars, can  
19 the Castle use any of those funds to pay debt?

20 A My recollection of the sweep amounts is we  
21 sweep down to approximately 15 million plus those  
22 reserves that I am stating and in the event there is a  
23 working capital line then some amount of those cash  
24 funds would be available for I guess what you call a  
25 sweep, but you then have the liquidity mechanism of

Foss - By Chairman Perskie

1 working capital line that would be available to deal  
2 you adequate measures of liquidity to the Castle.

3 MS. FLAHERTY: Thank you, Mr. Foss.  
4 That's all I have, Mr. Chairman.

5 CHAIRMAN PERSKIE: Mr. Schupper?

6 MR. SCHUPPER: I have no questions.

7 EXAMINATION

8 BY CHAIRMAN PERSKIE:

9 Q The documents to which Mr. Fusco made  
10 reference, specifically the ones that were filed  
11 today, 68G and H or 68H actually is the one Mr. Nutt  
12 executed and the ones that were filed the other day,  
13 specifically 68E and F which were the executed  
14 recommendation and acceptance and the memorandum with  
15 Midlantic and TCA and the Steering Committee--

16 A Those were dated about August 2 or July  
17 31, whatever it was?

18 Q Yes, August 1 or August 2.

19 A Fine.

20 Q All of those documents, essentially the  
21 documents that we have before us in whatever their  
22 form that purport to be actions taken by the Steering  
23 Committee, some of them bear your signature, some Mr.  
24 Nutt's. I take it each of those documents prior to  
25 its execution by whoever signed it was reviewed with

Foss - By Chairman Perskie

1 the Steering Committee, the contents were discussed  
2 and evaluated and those who signed them and purported  
3 to exercise authority to represent the views of the  
4 Steering Committee were authorized to do so?

5 A Absolutely.

6 CHAIRMAN PERSKIE: Vice Chair?

7 VICE CHAIR ARMSTRONG: No.

8 CHAIRMAN PERSKIE: Commissioner

9 Waters?

10 Commissioner Hurley?

11 Anybody else?

12 Thank you. You may step down.

13 MR. FUSCO: Mr. Chairman, that's what

14 we have.

15 CHAIRMAN PERSKIE: The applicant

16 rests at this point?

17 MR. FUSCO: Yes.

18 CHAIRMAN PERSKIE: All right. Mr.

19 Schupper, do you have anything that you wish to

20 present?

21 MR. SCHUPPER: No.

22 CHAIRMAN PERSKIE: Does the Division

23 desire to be heard?

24 MS. FLAHERTY: No, Mr. Chairman.

25 CHAIRMAN PERSKIE: We will afford the

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1 parties, if they choose, the opportunity for any  
2 closing statements. Closing is perhaps a wrong word  
3 in this context. I don't know that we will ever all  
4 live long enough to have all of this closed, but let's  
5 call it a closing presentation for this particular  
6 aspect of this particular hearing. In any event if  
7 beyond that which has already been presented anyone  
8 wishes to make any closing presentation we will hear  
9 that now.

10 Mr. Schupper?

11 MR. SCHUPPER: No, sir.

12 MS. FLAHERTY: Mr. Chairman, I would  
13 just note that the Division's concern with regard to  
14 this matter is primarily for the next several months  
15 with respect to the cash position of the Castle until  
16 it proceeds to bankruptcy court. In light of that  
17 concern we have recommended a condition in our report  
18 to which the licensee has indicated that it agrees and  
19 we would request that that condition be imposed by the  
20 Commission and we would also note for the record that  
21 we concur with the conditions that have been  
22 recommended by Commission staff and ask the Commission  
23 to impose those as well. Thank you.

24 CHAIRMAN PERSKIE: Thank you.

25 Mr. Fusco, on that point in addition

1 to whatever else you may wish to address yourself to,  
2 you had the chance to review the recommended  
3 conditions suggested by the Division as well as the  
4 several conditions recommended by Mr. Trzaka's staff?

5 MR. FUSCO: Yes, we have, and Ms.  
6 Flaherty accurately indicates that the Castle agrees  
7 and does not object to the imposition of that  
8 condition set forth on page 21 of the Division's  
9 report D-11, nor do we object to the conditions set  
10 forth in the Commission report C-16, and other than  
11 that we have--do not seek to make a closing statement.

12 CHAIRMAN PERSKIE: Okay. Is there  
13 anything else then to which our attention needs to be  
14 addressed at this point?

15 MS. FLAHERTY: No, Mr. Chairman.

16 MR. FUSCO: No.

17 CHAIRMAN PERSKIE: We will then as  
18 previously indicated recess. I will indicate for the  
19 record that the Commission is satisfied this statement  
20 isn't as simple as it ought to be or as simple as it  
21 may appear, the Commission is satisfied that all of  
22 the information in a prima facie acceptable form that  
23 we need to make our decision has been submitted and is  
24 before us. We will analyze that, of course, in the  
25 context of the testimony as has been presented today



1 and as indicated we expect to be able to reach a  
2 conclusion by next week.

3 I should indicate, as I have to the  
4 parties in unofficial conversations I guess, that the  
5 Commission is mindful of the fact that everybody, the  
6 Division, the applicant, the bondholders committee,  
7 and all of their representatives have been required,  
8 without apology from the Commission, required to do  
9 what they have had to do under tight time lines and  
10 under a great deal of pressure and that's as it is.  
11 We recognize that a lot of work and a lot of effort  
12 went into what has gone on so far and we express  
13 appreciation for the quantity and quality of the  
14 effort that has gone into it. As I have said, we will  
15 evaluate it substantively and hope to be ready by next  
16 week.

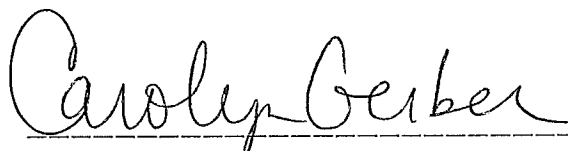
17 All right, we will be in recess.

18 (At which time the meeting was  
19 concluded at 3:15 p.m.)  
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C E R T I F I C A T E

I, CAROLYN GERBER, a Certified Shorthand Reporter and a Notary Public of the State of New Jersey, do hereby certify the foregoing to be a true and accurate transcript of my original stenographic notes taken at the time and place hereinbefore set forth.



CAROLYN GERBER, CSR

Dated: August 15, 1991.